

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

July 24, 2002

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

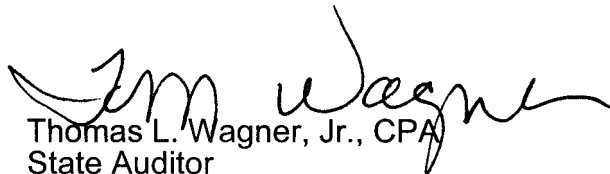
Re: AC# 3-HAL-J9 – GranCare South Carolina, Inc.
d/b/a Hallmark Health Care Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**GRANCARE SOUTH CAROLINA, INC.
D/B/A HALLMARK HEALTH CARE CENTER**

SUMMERVILLE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-HAL-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 17, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

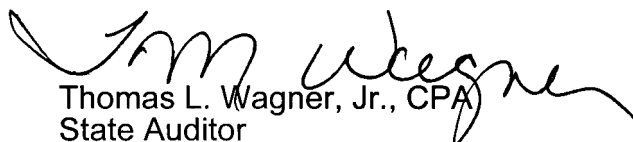
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center dated as of June 3, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 17, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HALLMARK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-HAL-J9

	10/01/00- <u>09/30/01</u>
Interim Reimbursement Rate (1)	\$104.19
Adjusted Reimbursement Rate	<u>100.34</u>
Decrease in Reimbursement Rate	\$ <u><u>3.85</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

HALLMARK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-HAL-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.80	\$53.99	
Dietary		9.87	10.56	
Laundry/Housekeeping/Maintenance		<u>7.46</u>	<u>9.12</u>	
Subtotal	\$ <u>5.16</u>	60.13	73.67	\$60.13
Administration & Medical Records	\$ <u>-</u>	<u>14.06</u>	<u>11.20</u>	<u>11.20</u>
Subtotal		74.19	<u>\$84.87</u>	71.33
<u>Costs Not Subject to Standards:</u>				
Utilities		2.58		2.58
Special Services		.86		.86
Medical Supplies & Oxygen		6.13		6.13
Taxes and Insurance		2.75		2.75
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$86.54</u>		83.68
Inflation Factor (3.20%)				2.68
Cost of Capital				8.36
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.16
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.41)
Nurse Aide Staffing Add-On 10/01/99				1.59
Nurse Aide Staffing Add-On 10/01/00				<u>2.28</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$100.34</u>

HALLMARK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,319,856	\$ -	\$ -	\$1,319,856
Dietary	304,404	-	-	304,404
Laundry	10,432	-	-	10,432
Housekeeping	134,362	785 (6)	777 (7)	134,370
Maintenance	85,510	484 (6)	387 (5) 484 (7)	85,123
Administration & Medical Records	530,759	904 (6)	97,148 (5) 655 (7) 374 (8)	433,486
Utilities	79,664	2 (5) 452 (6)	451 (7)	79,667
Special Services	26,580	-	-	26,580
Medical Supplies & Oxygen	214,007	-	6,456 (8) 18,645 (9)	188,906
Taxes and Insurance	119,720	575 (5) 638 (6)	35,610 (4) 449 (7)	84,874
Legal Fees	4,707	9 (6)	3,906 (5) 1 (7)	809

HALLMARK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments Debit	Credit	Adjusted Totals
Cost of Capital	310,705	1,129 (6)	8,038 (1) 5,533 (2) 7,068 (3) 28,352 (5) 688 (7) 4,357 (10)	257,798
	_____	_____	_____	_____
Subtotal	3,140,706	4,978	219,379	2,926,305
Ancillary	71,296	3,818 (8)	-	75,114
Non-Allowable	562,235	8,038 (1) 5,533 (2) 7,068 (3) 35,610 (4) 129,216 (5) 3,505 (7) 3,012 (8) 18,645 (9) 4,357 (10)	4,401 (6)	772,818
	_____	_____	_____	_____
Total Operating Expenses	<u>\$3,774,237</u>	<u>\$223,780</u>	<u>\$223,780</u>	<u>\$3,774,237</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
TOTAL BEDS	<u>88</u>			

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$ 77,652	
	Nonallowable	8,038	
	Fixed Assets		\$39,497
	Accumulated Depreciation		38,155
	Cost of Capital		8,038
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	5,533	
	Cost of Capital		5,533
	To remove amortization expense related to organization and loan cost State Plan, Attachment 4.19D		
3	Nonallowable	7,068	
	Cost of Capital		7,068
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Nonallowable	35,610	
	Taxes and Insurance		35,610
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Utilities	2	
	Taxes and Insurance	575	
	Nonallowable	129,216	
	Maintenance		387
	Administration		97,148
	Legal		3,906
	Cost of Capital		28,352
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	785	
	Maintenance	484	
	Administration	904	
	Legal	9	
	Utilities	452	
	Taxes and Insurance	638	
	Cost of Capital	1,129	
	Nonallowable		4,401
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	3,505	
	Housekeeping		777
	Maintenance		484
	Administration		655
	Legal		1
	Utilities		451
	Taxes and Insurance		449
	Cost of Capital		688
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Ancillary	3,818	
	Nonallowable	3,012	
	Administration		374
	Medical Supplies		6,456
	To remove special (ancillary) services reimbursed by Medicare and reclassify expense to the proper cost center DH&HS Expense Crosswalk State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable Medical Supplies	18,645	18,645
	To disallow Part B co-insurance expense due to lack of documentation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable Cost of Capital	4,357	4,357
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$301,432</u>	<u>\$301,432</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HALLMARK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-HAL-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	119,895
Accumulated Depreciation at 9/30/99	<u>(541,354)</u>
Deemed Depreciated Value	2,761,061
Market Rate of Return	<u>.060</u>
Total Annual Return	165,664
Return Applicable to Non-Reimbursable Cost Centers	(874)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>195</u>
Allowable Annual Return	164,985
Depreciation Expense	95,996
Amortization Expense	403
Capital Related Income Offsets	(2,898)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(688)</u>
Allowable Cost of Capital Expense	257,798
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>8.36</u></u>

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